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E.O. 12958: N/A
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SUBJECT: Argentina: On the Road to London G-20

Ref: Buenos Aires 294, 230

Summary

¶1. (SBU) Argentine President Cristina Fernandez de Kirchner's (CFK's) upbeat and cooperative participation in the March 27-28 Progressive Governance Summit in Chile should presage constructive GoA positions at the upcoming G-20 summit. GoA officials highlight CFK's "outstanding" bilaterals in Santiago with Vice President Biden and British Prime Minister Brown, and claim the GoA supports all U.S. G-20 positions except on IMF reform, where it seeks radically reduced conditionality, not just increased IMF resources. There is also discussion among GoA officials that, in anticipation of some medium-term GoA need for IMF funding to offset its rapidly declining tax base, some G-20 acknowledgement of prior "poor" IMF treatment of Argentina as well as sufficient cosmetic G-20 mandated IMF reforms could provide the Kirchner administration sufficient political cover to return to the IMF. In line with the GoA's political inclinations, CFK can be expected to push for an expanded role for government oversight in the global economy. She also may criticize developed nations for instigating the financial crisis and demand progress on agricultural subsidies as a pre-condition for re-starting WTO Doha round talks. Other GoA priorities include rating agency reform, regulatory oversight of derivatives, and the elimination of tax havens. Despite some policy differences, the indications are that CFK wants to play a constructive role at the summit, and broadly supports the U.S. call for fiscal stimulus to revive global demand. End Summary.

Previewing GoA Interventions at the G-20 Summit

¶2. (SBU) GoA contacts and local media are presenting President Cristina Fernandez de Kirchner's (CFK's) comments at the March 27-28 Progressive Governance Summit on causes and remedies for the global financial crisis in Santiago, Chile as a preview of the GoA's position at the upcoming G-20 London heads of state summit. GoA Economy Ministry Secretary for Political Economy Martin Abeles, in a March 30 conversation with EconCouns, called CFK's participation there upbeat and constructive. He said that at this late date, senior Economy Ministry and Central Bank officials anticipate that at the London Summit, CFK will echo Brazilian President Lula's criticism of the developed north for having instigated the global

financial crisis. He anticipated that she will demand that emerging market economies like Argentina have ready access to minimal-conditionality IFI financing to deal with the crisis' fallout on domestic markets.

13. (SBU) Citing mutually reinforcing market failures that have expanded the financial crisis' reach to the broader global economy -- and true to the Kirchner administration's interventionist bent -- Abeles predicted that CFK will also insist that expanded government participation in economic decision-making be an integral part of the new global economic architecture. He confirmed that CFK will call for rating agency reform, more regulatory oversight of derivative securities, and a focus on eliminating global tax havens. On protectionism, Abeles anticipated that CFK would hew to the GoA's longstanding call for developed nation movement on agricultural subsidies and recognition of the need for "proportional" gaps between developing and developed nation movement on industrial tariffs as pre-conditions for re-energizing the Doha trade round.

CFK at Santiago Progressive Summit: More Worldly

14. (SBU) Highlighting CFK's Santiago bilaterals with Vice President Biden and British Prime Minister Brown, local media has been contrasting her "agreement" with the USG and UK on the need for concerted G-20 government action to recover global demand with French and German concerns about the potential inflationary impact of vastly expanded government spending. Media has also highlighted CFK's agreement with the USG and UK on the need to reform the IMF, expand lending capacity and efficiency of the MDBs (and particularly the Inter-American Development Bank), and impose clear and consistent global financial system oversight and regulation.

15. (SBU) Foreign Minister Taiana noted to media in Santiago that both VP Biden and PM Brown had highlighted to CFK "Argentina's experience in crisis (management) and its perseverance in demanding changes in the IMF." According to Taiana, CFK replied to Biden that "the Argentine system imploded in ways similar to what is now happening on a global level, and so we have a certain expertise in this theme. What is happening now in the world already happened, on a smaller scale, in this region." In her direct comments to media at the Santiago Summit, CFK criticized IFIs for not having given advance warning of the crisis and called for their "profound reform given their disorientation and lack of answers." She said that "to allow the MDBs greater capacity, they must be reformed," and noted that Argentina would propose that "important" new money be provided to the World Bank and IDB for emerging economy infrastructure projects. Finally, on trade policy, CFK is reported to have called for developed countries to lift agricultural trade barriers, including subsidies.

16. (SBU) In a March 29 phone call to Ambassador, Argentine Ambassador to the U.S. (and GoA Progressive Governance Summit and G-20 Sherpa) Hector Timerman called CFK's meeting with Vice President Biden outstanding and said that Argentina is broadly supportive of all U.S. G-20 positions except IMF reform, where it wants to go further than the U.S. Timerman explained that the GoA wants to build in some acknowledgement of what it alleges to be the IMF's past ill-treatment of Argentina. He added that CFK is very supportive of the U.S. stimulus package and any other steps to get the U.S. economy going as she sees this as essential for the world's recovery.

A Return to the IMF? Unlikely.

17. (SBU) Notwithstanding the consistent GoA demonization of the IMF in the aftermath of Argentina's 2001/2 economic implosion, there appears to be a growing anticipation among Embassy contacts in the Economy Ministry and Central Bank that some acknowledgement of prior "poor" IMF treatment of Argentina as well as "cosmetic" G-20 mandated IMF reforms could provide sufficient political cover for Argentina to return to the fold. Beyond voting share and management reform to increase emerging market weight and decision-making participation, a key GoA goal remains a relaxation of conditionality -- likely in anticipation of some medium-term GoA need for IMF

funding to offset its rapidly declining tax base and a bunching of sovereign debt maturities in the 2009-11 timeframe. (Comment: This is consistent with GoA interventions on this point during the G-20 working group and Finance Minister meetings over the last few months-- see septel.)

¶8. (SBU) Nevertheless, the likelihood that Argentina could become eligible for the IMF's newly announced Flexible Lending Facility (FCL) appears remote. In a conversation with Econcouns, IMF Argentine ResRep Gaston Gelos (protect) recalled that the IMF's spokesperson specifically highlighted in public comments that Argentina was not eligible for the FCL's pre-cursor, the Short-Term Liquidity Facility (SLF). And by any measure, Argentina does not meet two of the key "pre-set qualification criteria" that the IMF says are at the core of the FCL and that will serve to signal the Fund's confidence in the qualifying member's policies and ability to take corrective measures when needed. These are the Fund's assessment that the member have: (1) a track record of steady sovereign access to international capital markets at favorable terms; and (2) data transparency and integrity. While the Fund has clarified that "compensating factors, including corrective policy measures under way," would be taken into account in the FCL qualification process, local economists agree that it is hard to imagine the GoA would be considered eligible absent an Article IV review that commits the GoA to cleaning up its statistical reporting.

Comment

¶9. (SBU) Local media and pundits have commented extensively on the "accident of history" that included Argentina in the G-20 club when it was formed a decade ago. This inclusion recognized Argentina's status then as a star pupil of World Bank-designed privatization efforts and reflected a Peso-US\$ peg that overvalued Argentina's share of dollar-weighted global commerce and GDP. These observers have expressed concern that, at this second G-20 heads of state meeting, CFK could take advantage of the exposure provided by the summit to distinguish herself as a populist champion of the third world railing against the inequities of modern capitalism.

¶10. (SBU) Those fears seem unlikely to be realized in the wake of the warm Santiago bilateral meetings between President Kirchner and VP Biden and PM Brown, along with constructive GoA contributions over the past weeks in G-20 Summit working groups on IMF, MDB and global financial architecture reform. CFK will most certainly criticize the developed north for instigating the global financial crisis. Her input on trade protectionism and IMF conditionality are also likely to diverge from the USG's. However, the indications coming out of the Santiago summit are that she wants to play a constructive role overall, and broadly supports the U.S. and UK focus on doing whatever it takes -- particularly using fiscal stimulus -- to revive and expand global demand. We hope this proves to be the case.

WAYNE